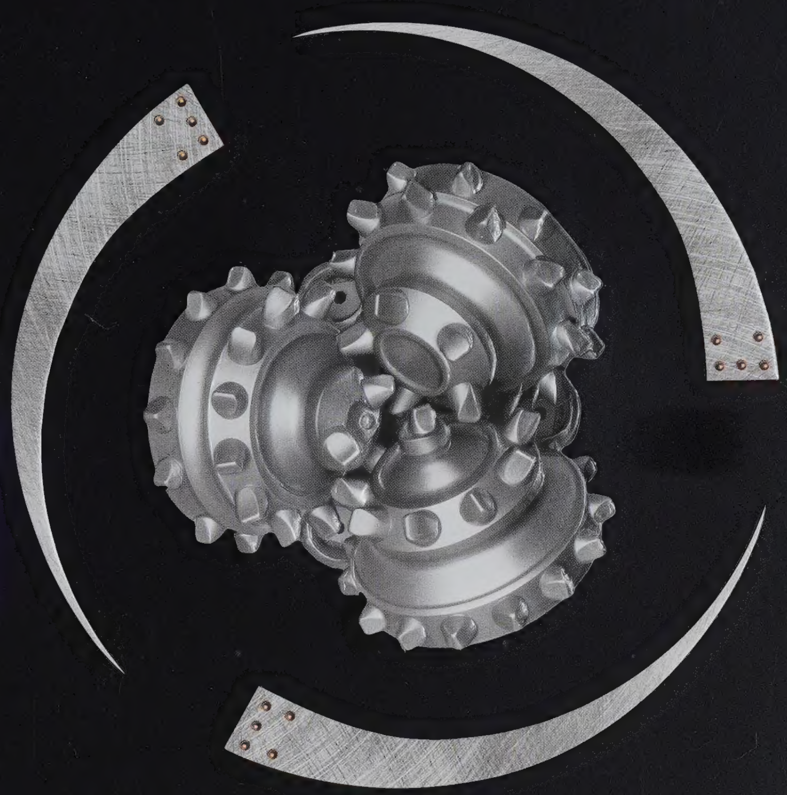


BUILDING THE FUTURE IN TODAY'S ASSETS

# CourageEnergyInc.

2000 ANNUAL REPORT

## ANNUAL MEETING OF SHAREHOLDERS

**Courage Energy Inc. is pleased to invite its shareholders and other interested parties to attend its Annual General Meeting to be held in the Viking Room of the Calgary Petroleum Club, 319-5th Avenue S.W., Calgary, Alberta on Wednesday, May 30, 2001 commencing at 11:00 a.m. For those shareholders unable to attend the meeting, please complete and return your Form of Proxy.**

## CONTENTS



*Cover: Tricone drill bit photo courtesy of Hughes Christensen, a Baker Hughes Company.*

*In the interest of providing Courage's shareholders and potential investors with information regarding the Corporation, this Annual Report contains forward-looking information relating to Courage's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar wording suggesting future outcomes. Much of this information appears in the Management's Discussion and Analysis. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by Courage. Courage undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.*

| FINANCIAL | 2000 | 1999 | Change |
|---|---|---|---|
| (000s except per share amounts) | | | |
| Revenue, oil and gas ($) | **53,403** | 29,461 | 81% |
| Cash flow from operations ($) | **28,786** | 14,421 | 100% |
| Per share - basic ($/share) | **1.14** | 0.57 | 100% |
| Per share - fully diluted ($/share) | **1.07** | 0.54 | 98% |
| Earnings ($) | **9,098** | 5,035 | 81% |
| Per share - basic ($/share) | **0.36** | 0.20 | 80% |
| Per share - fully diluted ($/share) | **0.35** | 0.20 | 75% |
| Shareholders' equity ($) | **38,215** | 31,376 | 22% |
| Capital expenditures ($) | **46,489** | 20,556 | 126% |
| Debt plus working capital ($) | **43,270** | 24,262 | 78% |
| Outstanding common shares | | | |
| Basic | **24,983** | 25,357 | (1)% |
| Fully diluted | **26,888** | 27,040 | (1)% |
| Weighted average | **25,169** | 25,187 | 0% |
| **OPERATIONS** | | | |
| **Production** | | | |
| Gas production (mcf/d) | **21,333** | 18,440 | 16% |
| NGLs production (bpd) | **367** | 424 | (13)% |
| Oil production (bpd) | **718** | 832 | (14)% |
| Total production 6:1 (boe/d) | **4,641** | 4,329 | 7% |
| Total production 10:1 (boe/d) | **3,218** | 3,100 | 4% |
| **Pricing** | | | |
| Average gas price ($/mcf) | **5.09** | 2.95 | 73% |
| Average NGLs price ($/bbl) | **37.63** | 21.40 | 76% |
| Average oil price ($/bbl) | **35.47** | 23.58 | 50% |
| **Reserves** | | | |
| Proven (mboe @ 6:1) | **11,536** | 12,193 | (5)% |
| Probable (mboe @ 6:1) | **3,362** | 2,992 | 12% |
| Total proven + probable (mboe @ 6:1) | **14,898** | 15,185 | (2)% |
| Total established (mboe @ 6:1) | **13,217** | 13,689 | (3)% |
| **Undeveloped land (acres)** | | | |
| Western Canada | **132,406** | 70,448 | 88% |
| International | **558,271** | 322,447 | 73% |
| Total | **690,677** | 392,895 | 76% |
| **Net asset value (pre-tax) per share ($)** | | | |
| @ Proven + 50% probable (10.0% NPV) | **5.17** | 3.14 | 65% |
| @ Proven + 50% probable (12.5% NPV) | **4.77** | 2.90 | 64% |
| @ Proven + 50% probable (15.0% NPV) | **4.44** | 2.70 | 64% |
| **Wells drilled** | | | |
| Gross | **19** | 19 | 0% |
| Net | **13.56** | 12.01 | 13% |
| Success rate (%) | **58%** | 47% | 23% |

## A long-term vision

Courage Energy is an established junior exploration company focused on long-term growth. High impact exploration activities are concentrated in the Peace River Arch in Canada and, internationally, in the United Kingdom. The Company believes there are several key strategies to maintaining a competitive growth profile: (1) Explore in areas with high impact, quality drilling opportunities; (2) Deliver production and reserves growth of 25% per year funded by cash flow; (3) Focus on a full-cycle exploration strategy weighted to natural gas; (4) Utilize a highly skilled technical team to move projects ahead in Canada and abroad, and (5) Maintain profitability throughout the commodity price cycle. Courage's international component, while still a small part of overall operations, is an important building block that strategically positions the Company for future growth, based on sound economics and decision making. This long-term vision encompasses a normal business cycle of two to four years or beyond.

Courage has demonstrated its ability to maintain profitable operations throughout the natural gas and oil price cycles with earnings in every year of operation. The management at Courage believes that natural gas prices will remain at record or near-record levels during the next two to four years and the exploration focus on natural gas is based on this long-term vision. Courage will continue to practice prudent financial management throughout this phase of the price cycle.

# Courage at a glance

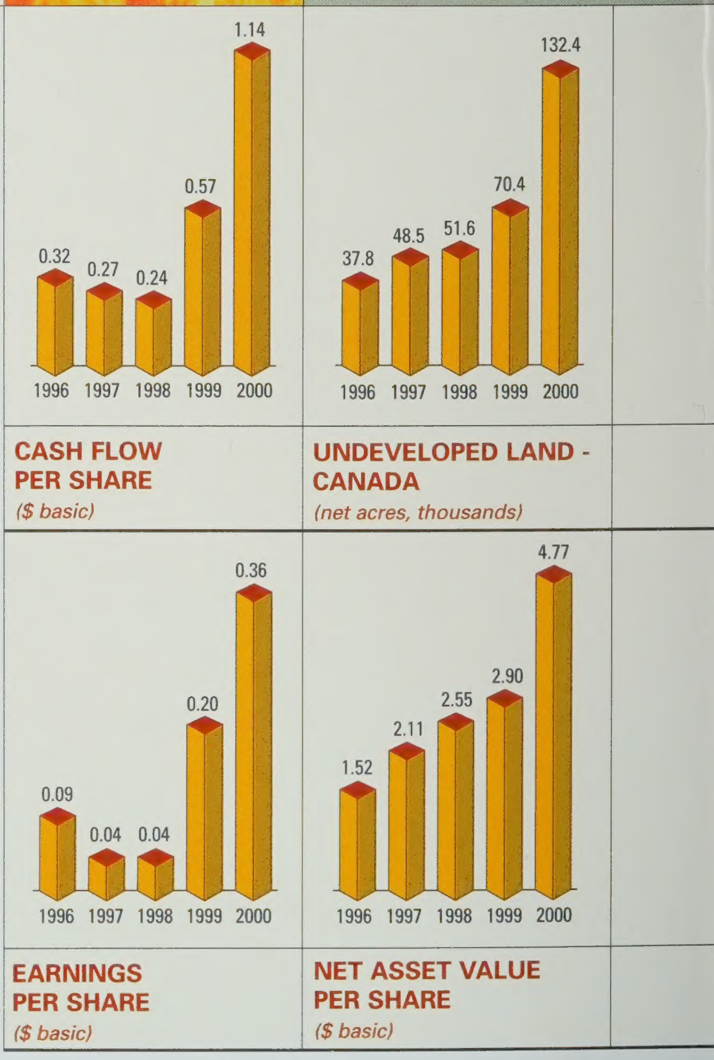
Building

### FULL-CYCLE EXPLORATION

#### A Precision Approach

Courage generates the majority of its revenue from a full-cycle exploration model. The cycle starts with a geological concept which is confirmed with seismic and other geotechnical data. A confirmed geological prospect is then analyzed with strictly defined economic parameters. Land acquisition is specifically focused on the confines of the prospect – often only 3 to 10 sections. An exploration test well is then drilled to evaluate the prospect. Discoveries are completed, equipped and pipelines are built to deliver production volumes to market. Production sales generate the revenue to reinvest in the next exploration concept. The prospect portfolio is focused on high impact, quality prospects which have the potential to significantly add to production and reserves.

The average time-frame from initial exploration concept to drill-ready status is four to six months on Crown land and three months on farm-in lands. As a junior exploration company that competes for drilling and service rigs against much larger companies, a flexible drilling program is maintained by building lead time into projects.



## WESTERN CANADA: TODAY'S CASH FLOW

### Major Properties

Courage owns a high working interest in and operates each of its core properties. Operatorship provides Courage the ability to control cost and timing of expenditures and to dictate the best production practices. Almost 80% of the Company's reserve value is concentrated in four properties.

### Red Creek/Wilder, British Columbia

Courage made the initial discovery in 1998 and followed up with successful development drilling. This property, owned 100% by Courage, produced an average 8.9 mmcf/d from the Halfway, Bear Flats and Kiskatinaw formations in 2000.

### Pouce Coupe, Alberta

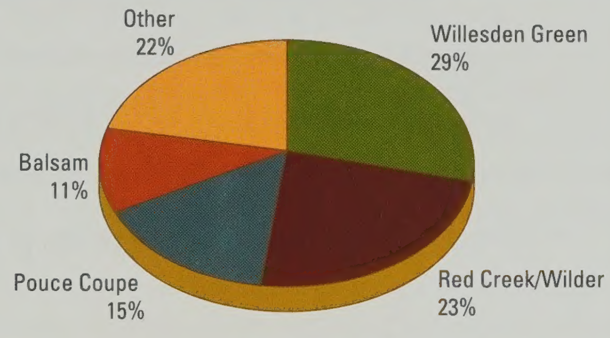
Courage owns interests ranging from 50 to 100% at Pouce Coupe, Alberta. The property was purchased by Courage in March 2000 with net production of 2.8 mmcf/d. During the past year, Courage drilled 4 (3.2 net) additional wells to increase the net production to 5 mmcf/d by year-end. The Company plans further exploration activities in the area to expand from this production base.

### Balsam, Alberta

Courage (100% interest BPO, 65% APO) drilled this significant discovery in December 2000. The well encountered over 38 metres of gas pay with exceptional reservoir quality. Production commenced in February 2001 at over 10 mmcf/d. Two follow-up wells are planned in 2001.

### Willesden Green, Alberta

A total of 5 (3.65 net) gas wells and 4 (3.2 net) oil wells currently produce over 1,600 boe/d net to Courage. The Company made the initial discovery in 1996 and operates the property with interests ranging from 50% to 100%.




**TOTAL PROVED RESERVES**
*(Pre-tax NPV @ 12.5%)*

# operations for today and the future

02 | 03

## POSITIONING FOR TOMORROW

Courage's international strategy is to develop reserves capable of sustaining long-term growth, production, profits and shareholder value. The Company's long-term goal is to make its international operations self-sustaining within the next two to four years.

### United Kingdom

Courage produces 120 bopd net from Fiskerton, which was discovered in 1998. The Company has 356,500 net acres of land in the United Kingdom, where it has identified 10 prospects to date, including four that are drill-ready.

### Denmark

Courage has a 32% interest on a concession in Denmark, which covers 586,358 (187,635 net) acres of land. Courage and its partners have identified three large undrilled structures and are currently reviewing additional seismic to further develop potential drilling locations for 2002.

## KEY INVESTMENT POINTS

- Management has grown the Company at an average 30% annual compound rate by most measures of growth, including production, revenue, cash flow and earnings.

- Courage has achieved consistent earnings in every year of operation, ranking the Company as one of the fastest-growing public oil and gas companies in Canada.

- The Company has invested 25% of its exploration budget in undeveloped exploration acreage and seismic. Courage owns a sustainable inventory of exploration prospects defined by a strong technical team.

- Production is weighted 78% to natural gas.

- Fourth quarter drilling resulted in a significant new pool discovery at Balsam, Alberta that was placed on production at over 10 mmcf/d and 200 bpd of NGLs in February 2001.

## PRESIDENT'S LETTER TO THE SHAREHOLDERS

It is with pleasure and optimism that I report on the Company's activities during the past year and outline plans for the year ahead. Last year was a period of unprecedented strength in oil and natural gas prices and we believe these prices will persist in the year ahead. Courage achieved record financial results during 2000 and laid the foundation for both production and financial gains in the current year.

Strong commodity pricing, the high quality of assets and the Company's 78% weighting to natural gas all contributed to record revenues, cash flow and earnings. Revenues increased by 81% to $53.4 million in 2000, up from $29.5 million in the prior year. Cash flow doubled to $28.8 million ($1.14 per share) in 2000, up from $14.4 million ($0.57 per share) in 1999. The Company's earnings of $9.1 million ($0.36 per share) were an increase of 81% over the $5.0 million ($0.20 per share) achieved in 1999.

Courage has always been and continues to be focused on profitability. The Company has been earnings positive, even during the oil price collapse of 1998. Earnings of $9.1 million in 2000 represent a 26% return on equity. Courage expects that in 2001 the retained earnings account will surpass the Company's total share capital account. This is a statistic that few exploration companies can boast and Courage has accomplished this primarily through the exploration drill bit.

R.G. Moffat, *President and C.E.O.*

Significant exploration discoveries made toward year-end have positioned the Company to repeat and sustain its growth well into the future. Courage continues to target a 25% growth rate per year.

## Positioned for Long-term Growth

Courage has been consistent in its strategy to create a sustainable and profitable company, with an exploration program concentrated on natural gas in the Peace River Arch area of northern Alberta and northeast British Columbia. Courage also has international operations in France, Denmark and the United Kingdom. During the past three years, Courage has invested approximately 25% of its exploration budget on land and seismic acquisition. This activity has increased the Company's domestic land position by 160% over the last three years to 172,000 (132,000 net) acres of undeveloped land, enabling Courage to assemble an enviable prospect inventory. This exploration agenda, the weighting to natural gas, and a technical team with a proven track record has truly positioned the Company for long-term growth.

The Peace River Arch is one of the last remaining areas in the Western Canadian Sedimentary Basin that offers potential for significant, high impact, exploration discoveries. This is evidenced by the recently announced natural gas discovery by Courage at Balsam, Alberta. The discovery well (Courage 65% interest after payout) encountered 38 metres of natural gas pay. This well was placed on production in February 2001 at more than 10 mmcf/d (6.5 mmcf/d net) of natural gas plus 200 bpd (130 bpd net) of natural gas liquids. The discovery is significant in itself but particularly significant to Courage, because it increased the Company's natural gas production by 30%.

The success at Balsam has boosted current production to 28 mmcf/d of natural gas and 1,250 bpd of oil and natural gas liquids (6,680 boe/d @ 6:1).

## 2000 Activities

Capital expenditures of $46.5 million during 2000 funded the drilling of 19 (13.6 net) wells, resulting in 8 (6.0 net) natural gas wells, 3 (2.6 net) oil wells and 8 (5.1 net) dry and abandoned wells. This represents an overall success rate of 58%. Included in the expenditures were $14 million invested in two property acquisitions and $7.0 million invested in international and domestic undeveloped land and seismic.

The Company's acquisition at Pouce Coupe, Alberta, added 2.8 mmcf/d of net natural gas production and 10,953 net acres of undeveloped land with attractive exploration potential. Subsequent to this $13.5 million acquisition, Courage drilled 4 (3.2 net) wells on the property, increasing net production to 5.0 mmcf/d. Courage plans to drill at least one exploration well at Pouce Coupe in 2001.

In November, Courage acquired all of the outstanding shares of AltaQuest Energy Corporation (U.K.) Limited. This acquisition was part of a property exchange involving the sale of 120 boe/d of production in mature Canadian properties from Courage in exchange for the purchase of a similar amount of U.K. production in AltaQuest. The primary producing property of AltaQuest was a 32% interest in the Fiskerton, U.K. oil pool where Courage already owned an 18% interest. More importantly, the AltaQuest acquisition included a large undeveloped land base. Courage now controls the majority of the exploration land in the East Midlands Basin with 503,000 (355,800 net) acres of undeveloped land. Courage has identified numerous exploration prospects on this acreage that the Company intends to pursue.

In France, Courage (30% working interest) drilled an exploration well to test the potential of a 40 square kilometre structure. The upside of this well would have been a potential doubling of corporate reserves and the strategic positioning of Courage into a substantial and attractive asset purchase in France. The outcome was a disappointment with a dry hole and Courage subsequently decided not to pursue the asset purchase. The risk-adjusted potential of this project measured against the costs was extremely economic. As an exploration company, Courage believes that it should continue to lever itself to the exponential growth provided by international exploration. The next international project that has the potential of providing mega reserves is a 3 tcf prospect in Denmark. Courage will invest a modest amount of money in seismic this year with a drilling decision to be made in 2002.

## Outlook

The Canadian oil and natural gas industry can expect another banner year in 2001. Natural gas prices will almost certainly remain high, and there are signs the equity markets are beginning to recognize the value being created by many producers. As this continues, there should be share price gains for shareholders of natural gas-weighted companies. Courage continues to explore for natural gas, and with its 78% natural gas weighting, the Company will be a strong beneficiary of favourable price dynamics. A substantial prospect inventory will enable the Company to conduct an active drilling campaign during the year, and further exploration success will build on what already appears to be shaping up as the Company's best year ever.

Courage is confident that it can maintain its growth rate without issuing additional equity, through the use of internally-generated cash flow and debt financing. Courage achieved substantially all of its growth from full-cycle exploration, which has been internally financed. Courage believes that it can continue to deliver the 25% to 30% annual growth that shareholders have been accustomed to.

Current debt levels are reasonable and manageable, but the Company also recognizes that commodity prices are cyclical. The debt and working capital deficiency at December 31, 2000 was $43.3 million, or approximately 1.01 times fourth quarter 2000 annualized cash flow. The Company plans to lower these debt levels by directing excess cash flow and proceeds from a planned disposition of minor properties toward debt repayment. Lower levels of debt will reduce exposure to commodity price swings, and will provide the financial flexibility needed to take advantage of potential opportunities outside of our planned capital budget.

Courage has the momentum and skill set to grow the Company with its domestic portfolio. The international activities are aimed at strategically positioning the Company for long-term growth in a time-frame several years ahead. The capital requirement to carry the international assets is not prohibitive. The Company has identified 10 seismically defined oil and gas prospects in the United Kingdom, each with the potential of 2 to 5 mmbbls of oil and one natural gas prospect in Denmark with the potential of several trillion cubic feet of gas. This year a total of $1 million has been budgeted for international activities.

## Acknowledgements

One of the strategic advantages that Courage possesses is the skill set that it has developed.The exploration focus and ability to achieve exploration success is dependent on the talent, experience and sound judgment of the Company's staff. Courage acknowledges the strategic role that each of its employees has contributed in this competitive effort.

In response to the rapid growth of the Company and the new demands placed on management, Courage made key additions to the management team during the year. Mr. John W. Essex, P.Eng., who has 25 years of experience in the oil and gas industry, joined Courage as Vice President, Operations, with responsibility for all of the Company's production and operational activities. Mr. C. Dean Setoguchi, CA, who has 13 years of public and corporate accountancy experience, joined the management team as Vice President, Finance, and is responsible for financial reporting, treasury, corporate finance and investor relations. I welcome them to the Courage team.

Courage also announced two significant appointments to the Board of Directors. Mr. Jack W. Peltier, who has extensive management and investment banking experience in the oil and gas industry, and is chairman of a publicly traded income trust fund, was appointed a Director. Mr. Kenneth R. Stiles, a Director of Courage since 1994, who is also a director of several private companies, has been appointed Chairman of the Board. The Board of Directors provided strategic direction and guidance during the year and I thank each Director for his dedication and contribution.

R.G. Moffat,
President and Chief Executive Officer
March 30, 2001

avid Shenstone *ice President, Land* | John Essex *Vice President, Operations* | Janine Rossos *Vice President, Exploration*

## EXPLORATION STRATEGY

Courage Energy's exploration activities are focused on the Peace River Arch in Western Canada and on carefully selected projects in Western Europe.

The Company is determined to maintain a competitive growth profile. Its strategy for attaining this objective is as follows:

(1) Explore in areas with high impact, quality drilling opportunities;

(2) Deliver production and reserves growth of 25% per year funded by cash flow;

(3) Focus on a full-cycle exploration strategy weighted to natural gas;

(4) Utilize a highly skilled technical team to move projects ahead in Canada and abroad; and

(5) Maintain profitability throughout the commodity price cycle.

While the majority of Courage's activities currently take place in the Peace River Arch, international projects form a component of our plan for longer-term growth. Such projects typically incur lead times of three to five years. Cash flow from Courage's existing international operations will provide the majority of capital required for international investments in 2001, and Courage expects the international program to be fully self-financing within two to four years.

## THE COURAGE APPROACH

Courage's challenge as a junior explorer is to employ a cost-effective strategy for finding and producing reserves. The Company's exploration model is exemplified by its approach in the Peace River Arch. The Arch is attractive because its intensely structured nature creates myriad natural gas traps with the potential for prolific wells from multiple zones. However, it is a highly competitive operating area.

Courage limits exploration costs while maximizing upside potential through a precision approach to land acquisition. Courage seeks to capture its prospects by acquiring only the actual drillable lands. This is accomplished by careful exploration work in advance of land acquisition. The precision approach limits the inventory of potentially non-productive land.

Key to successful drilling under such a strategy is the technical quality of the prospects generated. The Courage exploration team combines a track record of technical excellence with a commitment to cost control, and develops an average of 30 quality prospects per year from a rolling inventory of more than 150 exploration leads. To maintain this momentum, Courage added several senior technical staff in 2000.

Short lead times contribute to an efficient full-cycle exploration program. Courage aims for a schedule of only four to six months from initial exploration concept to drill-ready status.

Exploration results to date show that the Courage approach is working. An independent study of natural gas drilling in Alberta showed the average new pool discovery over the last decade contained reserves of 1.7 bcf. Only 5% of discoveries exceeded 5.9 bcf, or 1 mmboe. Courage has out-performed the industry average by a considerable margin. The Company's five most recent discoveries – Balsam, Red Creek, Wilder, Beatton and Willesden Green – found reserves averaging more than 10 bcf each, placing them among the richest natural gas finds of the past decade.

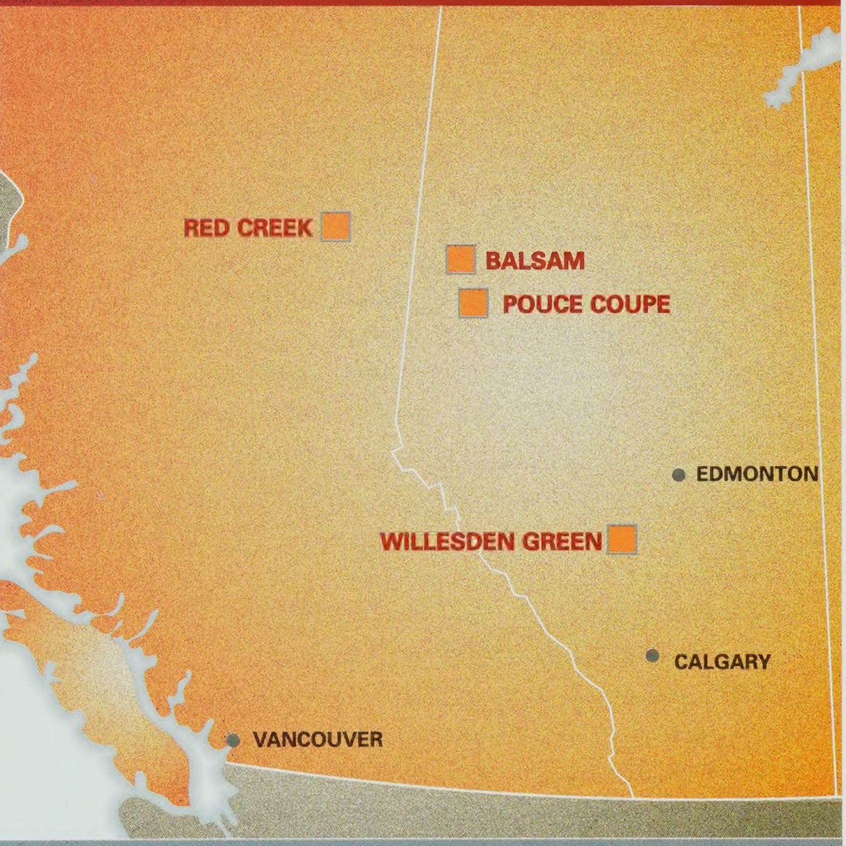
Courage generally employs third-party processing to bring discoveries onstream, particularly for liquids-rich or sour natural gas that is processing-intensive. In spite of higher processing costs, the benefits of faster connection of new reserves and reduced capital requirements allow Courage to focus its investment capital where it is most productive – in new exploration efforts.

## EXPLORATION — CANADA

In 2000, Courage built a large inventory of high quality, multi-zone gas prospects. The Company succeeded in developing new core areas at Balsam and Pouce Coupe on the highly competitive Peace River Arch, which has been the strategic focus for the Company since early 1997.

Production in 2000 was concentrated in three core areas: Pouce Coupe and Red Creek/Wilder on the Peace River Arch, and Willesden Green in west central Alberta. Production at Balsam, Alberta commenced in February, 2001.

### WESTERN CANADA CORE PROPERTIES




### PEACE RIVER ARCH

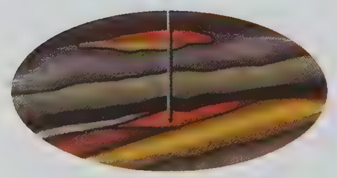
The Peace River Arch offers exploration potential characterized by multiple hydrocarbon zones prospective for gas and natural gas liquids, large reserve potential and modest annual production declines. The region is technically complex, dominated by some of the industry's largest players, and requires deeper, more expensive wells at depths of 1,000 to 2,500 metres. However, a long producing history has created an infrastructure network that allows new pools to be brought onstream quickly. The Company is focused on the Cretaceous, Triassic, Mississippian and Devonian-age geological trends in its exploration for new natural gas and light oil pools.

#### Risk Management

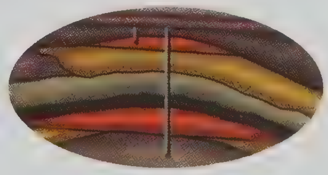
The area's potential and complexity is well understood by Courage's strong technical team and this knowledge base serves to reduce exploration risk. In contrast to other areas with independent stratigraphic traps in single zones, the structuring on the Peace River Arch creates drape on deep-seated structures that is reflected in the shallower formations, resulting in the opportunity for hydrocarbon trapping in multiple stacked objectives that can be seen on seismic and tested in a single well. Some of the key objective formations, including the Triassic Halfway and the Mississippian Kiskatinaw formations, contain natural gas liquids that enhance the profitability of gas production. Although the majority of Courage's exploration wells are higher-risk new pool wildcats, the advantages of superior production rates and reserve potential help to offset this risk.



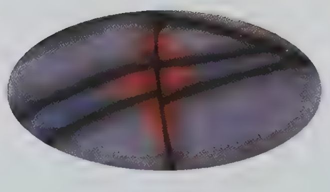
## Peace River Arch Play Types



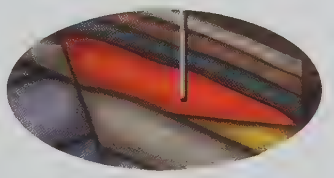
Combination structural-stratigraphic traps in sand lenses and pinch-outs at 1,000 to 1,200 metre depth. Pool size potential: 3-20 bcf.



Structural traps in shallow Cretaceous and Triassic sands and carbonate rocks at 1,000 to 1,200 metres depth. Pool size potential: 3-20 bcf.



Stratigraphic traps in deep Devonian carbonate rocks at >2,200 metres depth. Porous dolomitized, reservoir developed laterally from vertical faults. Pool size potential: 10-40 bcf.



Structural-stratigraphic traps in Mississippian sandstones at intermediate depth (1,500 to 2,100 metres). Pool size potential: 8-40 bcf.

### Balsam

Courage's exploration success at Balsam, Alberta is an excellent example of the Company's strategic focus to deliver high impact drillable gas prospects. In 2000, Courage embarked on an extensive seismic program, acquiring both industry trade data and proprietary 2-D and 3-D seismic. This was followed by an aggressive land acquisition program in which Courage acquired both open Crown land and leased acreage through farm-ins. One of these farm-ins was in the Balsam area, located approximately 80 kilometres east of Fort St. John, B.C.

The Balsam discovery drilled in late 2000 resulted in a significant new Kiskatinaw gas pool. The well was drilled on a faulted basement structure, which provided both a structural and a stratigraphic trapping mechanism. The 3-26 well (100% interest before payout, 65% after payout) encountered multiple gas-charged zones with over 38 metres of pay. The well was completed and connected via a nine kilometre Courage pipeline to a gas plant at Josephine, Alberta. Production commenced on February 4, 2001. The well produces at rates exceeding 10 mmcf/d and 200 bpd of liquids. Courage has already drilled a follow-up development well at 6-27 (50% interest) which is expected to yield results similar to the 3-26 discovery, and plans 2 additional wells in this area during the summer months. With the success of 6-27, this new core area at Balsam has the potential to become one of Courage's premier producing properties during 2001 and a focus of its continuing exploration program.

### Pouce Coupe

Courage made its first significant property acquisition at Pouce Coupe, Alberta in early 2000. The Pouce Coupe property added 2.8 mmcf/d of net production and 21,385 (10,953 net) acres of land, creating a new core area of operations for the Company.

Testing of Courage's Balsam well.

Geological and geophysical interpretation showed a complex, multi-zone faulted structure similar to Courage's 1998 discovery at Red Creek, British Columbia. Production is obtained from the Triassic Baldonnel Formation, one of six potential gas-bearing zones in the area. The slightly sour raw gas is processed at the Progress gas plant.

A successful 2000 drilling program of 4 (3.2 net) development wells almost doubled production from the Baldonnel to 5 mmcf/d by year-end. Three of these wells were drilled horizontally to optimize deliverability from this low permeability zone. Courage used state-of-the-art drilling fluids technology to eliminate well-bore damage and to significantly reduce the costs associated with this program. In 2001, further exploration on Courage lands targeting Triassic gas has the potential to increase gas production from this new core area.

### Red Creek and Wilder

The discovery of a new Halfway gas pool at Red Creek, B.C. in 1998 was followed with successful development drilling. In late 1999, a second new gas discovery was made in Red Creek in the deeper Kiskatinaw sand. This well was brought on production in January 2000 at 3 mmcf/d of gas. Further exploration at Wilder, located six miles south of Red Creek, led to the 1999 discovery of gas in the Triassic Halfway and Bear Flats zones. During 2000, Courage completed the pipeline connection of its Wilder discovery, which commenced production at 3 mmcf/d in April. Compression facilities were also installed at Red Creek to maintain gas deliverability from these properties. Gas production from Red Creek/Wilder represented over 40% of Courage's daily total in 2000, averaging 8.9 mmcf/d. The Company's exploration success here is the template for its ongoing exploration program in the Peace River Arch.

Red Creek/Wilder continues to deliver approximately 7 mmcf/d of gas, reflecting the high quality of this asset. This gas is processed through the McMahon gas plant and is sold on the spot market. The initial reserve estimate for this area made at the time of discovery was based on volumetric data and subsequent production performance information has shown that this earlier estimate must now be reduced. Last year, the Red Creek and Wilder areas had proven reserves exceeding 4.5 mmboe that represented almost 40% of the Company's proven reserve base. Proven reserves at Red Creek/Wilder now stand at 2.7 mmboe (24% of the Company's reserve base on a boe basis). In spite of these reductions, the pools still contain the top-tier reserves targeted by Courage's exploration model.

## CENTRAL ALBERTA

### Willesden Green

Courage's Willesden Green core area delivered continued growth in production and reserves during the year, as the Company drilled 4 successful development wells to exploit Cardium oil and gas potential. The new wells added 650 boe/d of net production, bringing Courage's total from the Willesden Green core area to over 1,600 boe/d in early 2001. The addition of this Cardium oil has also significantly improved Courage's ratio of light to heavy gravity oil.

Courage's liquids-rich gas production at Willesden Green is processed through third-party facilities. The Company receives the Edmonton-posted price for its Cardium oil and all solution gas is conserved and sold.

During 2000, field compression was installed to optimize Courage's drainage of the Glauconitic gas reserves and to facilitate solution gas conservation. Courage will direct future activity to remaining Cardium oil exploitation opportunities on Company lands.

## 2001 ACTIVITY

The investment in 2000 has produced an enviable inventory of high potential, multi-zone, drill-ready gas prospects, largely on the Peace River Arch. Courage's recent success at Balsam is the start of the drilling of this inventory of prospects, which have potential recoverable gas targets of 5 to 20 bcf individually. This contrasts significantly with the average 1.7 bcf of gas per pool discovered in Alberta in the 1990s and underscores the relative quality and potential impact of Courage's prospect inventory. The Company hopes to drill 30 high impact wells in 2001, funded from cash flow.

**The Company's international component, while still a small part of its overall operations, is an important building block for future growth and is based on sound economics and decision making.**

## INTERNATIONAL PROPERTIES


Courage's international strategy is to develop reserves capable of sustaining long-term growth, production, profits and shareholder value. Exploration opportunities will involve joint venture partners capable of contributing drilling funds and technical expertise. Its interests are centered primarily in the United Kingdom, where there is a mix of exploration and development opportunities.

Generally, the international environment offers larger prospects than the Western Canadian Sedimentary Basin, in regions where oil and gas fields are under-developed and geological structures are well defined. There is far less competition for assets in onshore areas of Europe, since multinational companies have focused their attention on world scale projects offshore. The intensive exploration/exploitation strategy adopted by hundreds of competing entities in Western Canada has yet to be applied to the onshore areas of Europe.

Courage's long-term goal is to make its international operations self-sustaining within the next two to four years. In the meantime, international efforts will be funded jointly from international and domestic operations.

### United Kingdom

Courage produces 120 bopd net (50% working interest) from Fiskerton, which was discovered in 1998. The Company has 356,500 net acres of land in the United Kingdom, where it has identified 10 prospects to date, including four that are drill-ready. Courage had planned to drill at least one well during 2001 and to shoot additional seismic to mature more prospects to the drill-ready stage. However, the onset of Britain's agricultural foot-and-mouth disease crisis is expected to delay these activities.

### Denmark

Courage has a 32% working interest on a concession in Denmark, which covers 586,358 (187,635 net) acres of land. Courage and its partners have identified three large undrilled structures and are currently reviewing additional seismic to further develop potential drilling locations for 2002.

### France

In France, Courage (30% working interest) drilled an exploration well to test the potential of a 40 square kilometre structure. The upside of this well would have been a potential doubling of corporate reserves and the strategic positioning of Courage into a substantial and attractive asset purchase in France. The outcome was a disappointment with a dry hole and Courage subsequently decided not to pursue the acquisition.

Bruce Duncan
*Geophysicist*

Sherman Hirowatari
*Geologist*

Tom Trafford
*Geologist*

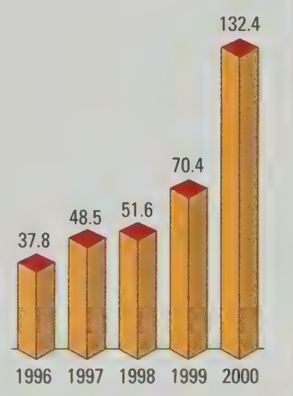
Mark Malouin
*Engineer*

# UNDEVELOPED LANDS

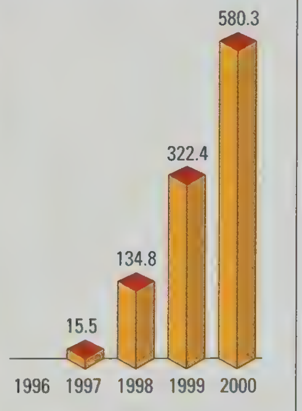
**Over the past two years Courage has built an enviable cache of high graded undeveloped lands with a corresponding inventory of drilling prospects. Land investments are very selective, and are made with a specific timeline in mind for drilling. The Company aims to drill a prospect within a very short time-frame of having acquired the leasehold, in order to minimize the front-end costs associated with delimiting the prospect and to obtain an early return on our drilling successes.**

During 2000, Courage purchased 80 sections of highly prospective Crown lands in Alberta and British Columbia. In total, Courage invested $3.6 million for an average acquisition cost of $70 per acre.

Internationally, Courage acquired AltaQuest UK to consolidate interests in the Midlands Basin of the United Kingdom in return for some non-core properties in central Alberta. The exchange involved a swap of production on a producing boe-for-boe basis, but also included that party's interest in 12 licenses and 250,000 undeveloped acres. Additionally, Courage was awarded three new licenses at the ninth landward licensing round in May. Two of the licenses were awarded to a Courage subsidiary that was appointed operator. At year-end 2000, the Company had 356,000 net acres of undeveloped land in the United Kingdom.




**UNDEVELOPED LAND - CANADA**
*(net acres, thousands)*




**UNDEVELOPED LAND - INTERNATIONAL**
*(net acres, thousands)*

**UNDEVELOPED LAND (ACRES)**

| | 2000 | | 1999 | |
|---|---|---|---|---|
| Region | **Gross** | **Net** | Gross | Net |
| Canada | **172,292** | **132,406** | 112,170 | 70,448 |
| United Kingdom | **502,848** | **355,798** | 375,859 | 134,812 |
| Denmark | **586,358** | **187,635** | 586,358 | 187,635 |
| France | **122,983** | **36,870** | 0 | 0 |
| Domestic | **172,292** | **132,406** | 112,170 | 70,448 |
| International | **1,212,189** | **580,303** | 962,217 | 322,447 |
| **Grand total** | **1,384,481** | **712,709** | 1,074,387 | 392,895 |

**Courage remains very much a natural gas-focused producer. During 2000, Company natural gas production averaged 21.3 mmcf/d with associated natural gas liquids of 367 bpd compared to an average of 18.4 mmcf/d of gas and 424 bpd in 1999. Additions resulted from new production at Wilder, the Pouce Coupe property acquisition and development drilling activity in the Pouce Coupe and Willesden Green areas. Premature water breakthrough at the Company's Beatton River property resulted in the loss early in the year of over 3 mmcf/d of net gas production plus natural gas liquids. The disposition of non-core gas assets in the Westerose area also affected gas volumes.**

Oil production averaged 718 bopd, lower than the 832 bopd recorded in 1999. Volume additions resulted from the Company's acquisition of additional interests at its Fiskerton oil property in the United Kingdom, and the development of Cardium oil at Willesden Green. However, these additions were more than offset by production declines at Courage's Chauvin and Grand Forks properties and the suspension of production at its Newton and Reepham properties in the U.K.to control costs. The full impact of oil additions at Willesden Green was not realized until after year-end. This light oil will significantly improve Courage's ratio of light-to-heavy oil.

The majority of Courage's production is sourced from three core areas: Willesden Green and Pouce Coupe in Alberta and the Red Creek/Wilder area in British Columbia. The Company maintains high working interests and operatorship in these areas. Gas production in all cases flows through Courage-operated pipelines and field compression to third-party gathering and plant facilities. Because the raw gas produced in these core areas is either slightly sour or liquids-rich, Courage has relied on large-scale third-party facilities to process its production. While the Company recognizes the trade-off between facility ownership and operating costs, accessing third-party facilities has resulted in faster connection of new production volumes and allowed the Company to deploy more capital resources into its exploration efforts.

**DRILLING ACTIVITY (NUMBER OF WELLS)**

| Year ended December 31 | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net |
| Oil | **3** | **2.55** | 1 | 0.40 | 7 | 2.58 |
| Natural gas | **8** | **5.95** | 8 | 5.91 | 8 | 5.50 |
| Dry | **8** | **5.06** | 10 | 5.70 | 2 | 1.45 |
| Total | **19** | **13.56** | 19 | 12.01 | 17 | 9.53 |
| Exploratory | **8** | **5.95** | 12 | 7.36 | 7 | 6.18 |
| Development | **11** | **7.61** | 7 | 4.65 | 10 | 3.35 |
| Average working interest | | **71%** | | 63% | | 56% |
| Success rate (%) | | **58%** | | 47% | | 88% |

**AVERAGE PRODUCTION (BOE @ 6:1)**

| Year ended December 31, 2000 | Natural Gas (mcf/d) | NGLs (bpd) | Oil (bopd) | BOE |
|---|---|---|---|---|
| Willesden Green | 5,890 | 236 | 29 | 1,247 |
| Pouce Coupe | 3,010 | 2 | 0 | 503 |
| Red Creek/Wilder | 8,880 | 41 | 9 | 1,530 |
| Other | 3,553 | 88 | 680 | 1,361 |
| **Total** | **21,333** | **367** | **718** | **4,641** |

**The Company's total reserve base at year-end included 11.5 mmboe of proven and 3.4 mmboe of probable reserves, compared to 12.2 mmboe and 3 mmboe respectively, reported in 1999. This represents an overall reduction in proven and probable reserves of 2%. Negative revisions to prior year's reserve estimates amounted to 2.4 mmboe of proven and an additional 0.8 mmboe of probable reserves. The vast majority of these revisions relate to Courage's gas properties in northeast British Columbia.**

Throughout this report, natural gas volumes have been converted to boe using a ratio of 6:1. This is consistent with the reporting practice adopted by Courage last year and approximates the relative energy content of natural gas and crude oil. This standard is now in use by companies involved in the exploration and production business worldwide.

Despite little growth in reserve volumes, the net present value of Courage's established reserves (proven plus one-half probable) increased by 70%. The primary driver of this value increase is the Company's exposure to natural gas, which constituted approximately 74% of Courage's proven reserves at year-end.

McDaniel & Associates Consultants Ltd. conducted an independent evaluation of Courage's reserves as of January 1, 2001. The evaluation indicates that 77% of the Company's reserves are classified as proven. Over 75% of these proven reserves were in the producing category at year-end and, by mid-February of 2001, this had improved to almost 90%.

Reserve additions during the year occurred as a result of the Pouce Coupe property acquisition in February, 2000 and the Company's drilling program. Successful development wells were drilled at Pouce Coupe and Willesden Green and a significant exploration gas discovery was made at Balsam. Proven reserve additions associated with Courage's acquisition (net of dispositions) and drilling activities during 2000 totalled 3.5 mmboe.

At Beatton River, proven reserves were revised down in recognition of the premature water breakthrough experienced at the Company's d-37-L Halfway gas well early in 2000. The gas pools in the Red Creek/Wilder area also experienced negative changes as the initial volumetric estimates were revised in recognition of subsequent production performance trends.



**RESERVE VOLUMES AND NET PRESENT VALUES**

**As at January 1, 2001**

| | | | | Net Present Values ($ millions) Before Income Tax Discounted at | | | |
|---|---|---|---|---|---|---|---|
| | **Gas (bcf)** | **NGLs (mmbbl)** | **Oil (mmbbl)** | **0%** | **10%** | **12.5%** | **15%** |
| Proven producing | 39.5 | 0.58 | 1.82 | 154 | 114 | 108 | 102 |
| Proven non-producing | 11.9 | 0.27 | 0.29 | 44 | 31 | 28 | 27 |
| Total proven | 51.4 | 0.85 | 2.11 | 199 | 145 | 136 | 129 |
| Probable | 15.3 | 0.17 | 0.64 | 48 | 22 | 19 | 17 |
| Proven plus probable | 66.7 | 1.02 | 2.75 | 247 | 167 | 155 | 146 |
| **Established** | **59.1** | **0.94** | **2.43** | **223** | **156** | **146** | **137** |

| RESERVES RECONCILIATION | | | | |
|---|---|---|---|---|
| **As at January 1, 2001** | | | | |
| | **Gas (mmcf)** | **NGLs (mbbl)** | **Oil (mbbl)** | **Total (mboe)** |
| Proven | | | | |
| January 1, 2000 | 54,022 | 1,108 | 2,081 | 12,193 |
| 2000 production | (7,808) | (134) | (263) | (1,699) |
| Additions | 13,612 | 210 | 314 | 2,793 |
| Acquisitions | 4,974 | 5 | 280 | 1,114 |
| Dispositions | (1,707) | (114) | (15) | (414) |
| Prior year's revisions | (11,657) | (222) | (286) | (2,451) |
| Total proven | 51,436 | 853 | 2,111 | 11,536 |
| Reserves life index (RLI – years) | 6.6 | 6.4 | 8.0 | 6.8 |
| Probable | | | | |
| January 1, 2000 | 12,393 | 192 | 735 | 2,992 |
| Additions | 6,164 | 11 | 81 | 1,119 |
| Prior year's revisions | (3,257) | (33) | (174) | (750) |
| Total probable | 15,300 | 170 | 642 | 3,362 |
| Total proven + probable | 66,736 | 1,022 | 2,753 | 14,898 |
| Reserves life index (RLI – years) | 8.5 | 7.6 | 10.5 | 8.8 |
| Total established | 59,086 | 937 | 2,432 | 13,217 |
| Reserves life index (RLI – years) | 7.6 | 7.0 | 9.2 | 7.8 |

| SUMMARY OF PRICE FORECASTS - MCDANIEL & ASSOCIATES CONSULTANTS LTD. | | | | | |
|---|---|---|---|---|---|
| **Year** | **WTI Crude Oil $US/bbl** | **Edmonton Light Crude Oil $Cdn/bbl** | **Alberta Average Natural Gas $Cdn/mmbtu** | **Edmonton Condensate $Cdn/bbl** | **Edmonton NGL Mix $Cdn/bbl** |
| 2001 | 25.00 | 36.90 | 6.70 | 36.90 | 31.60 |
| 2002 | 23.00 | 32.80 | 5.10 | 32.80 | 26.20 |
| 2003 | 22.40 | 31.00 | 4.60 | 31.00 | 24.00 |
| 2004 | 22.30 | 29.90 | 4.05 | 29.90 | 22.40 |
| 2005 | 22.70 | 30.00 | 3.90 | 30.00 | 21.90 |

| NET ASSET VALUE ($ MILLIONS, EXCEPT PER SHARE) AS AT JANUARY 1, 2001 | | | |
|---|---|---|---|
| | | **Discounted at** | |
| | **10%** | **12.5%** | **15%** |
| Present value of reserves, before income taxes, | | | |
| risked as to 50% for probable reserves [1] | 155,743 | 145,778 | 137,329 |
| Value of undeveloped land [2] | 16,760 | 16,760 | 16,760 |
| Debt & Working Capital | (43,271) | (43,271) | (43,271) |
| Net asset value | 129,232 | 119,267 | 110,818 |
| Net asset value per share | | | |
| **Basic** | **5.17** | **4.77** | **4.44** |
| **Fully Diluted** | **4.97** | **4.60** | **4.29** |

[1] Based on independent evaluation prepared by McDaniel's & Associates Consultants Ltd.

[2] Undeveloped land is based on internal estimates and represents $100 per acre in Western Canada and $10 per acre in the United Kingdom.

Courage's capital program during 2000 remained focused on its exploration strategy. Total capital expenditures were a record $46.5 million and approximately 30% of this amount was directed towards exploration activity. This included investing $7.0 million in mineral rights and seismic to position the Company on new exploration prospects primarily in Canada. Many of the prospects that were worked-up over the course of the year have not yet been drilled.

Of the 8 exploration wells drilled by Courage in 2000, including a wildcat well in France, only Balsam resulted in a significant success. In addition, significant negative revisions to the Company's reserves relating to properties that were discovered two or more years ago had to be recognized at year-end. These factors, among others, underscore the characteristic nature and challenges of full-cycle oil and gas exploration.

For this reason, cumulative average finding and development (F&D) costs represent a far better measure of an exploration company's ability to add value through its exploration efforts than F&D costs for any single year. Courage's three-year and five-year average all-inclusive F&D costs as of year-end are $9.97 and $8.11 per proven boe, respectively. The three-year and five-year costs on an established reserves basis are $9.99 and $7.45 per boe.

**CAPITAL EXPENDITURES ($ MILLIONS)**

| | **2000** | 1999 |
|---|---|---|
| Canada | | |
| Land and lease | **3.8** | 4.1 |
| Seismic | **2.6** | 1.1 |
| Drilling and completions | **15.6** | 8.7 |
| Property acquisitions/dispositions | **12.8** | 0.9 |
| Facilities and equipment | **6.5** | 4.2 |
| Corporate assets | **0.4** | 0.1 |
| Total Canada | **41.7** | 19.1 |
| International | | |
| France | **2.2** | 0.4 |
| United Kingdom* | **2.6** | 1.1 |
| Total International | **4.8** | 1.5 |
| **Total corporate** | **46.5** | 20.6 |

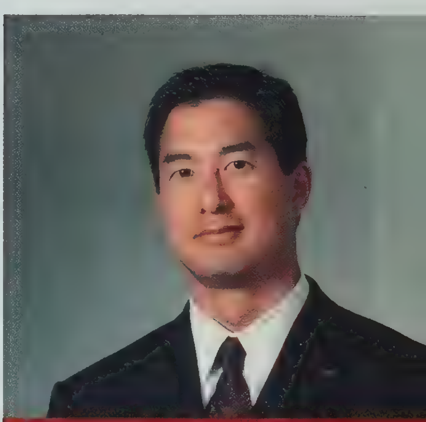
*Includes acquisition of AltaQuest U.K.



**FINDING AND DEVELOPMENT (F&D) COSTS (BOE @ 6:1)**

| | **2000** | 1999 |
|---|---|---|
| Total capital expenditures ($ millions) | **46.5** | 20.6 |
| Annual F&D costs ($/boe) (1) | | |
| Proven | **13.31** | 5.32 |
| Established | **11.47** | 4.78 |
| Three-year F&D costs ($/boe) (2) | | |
| Proven | **9.97** | 4.44 |
| Established | **9.99** | 4.23 |
| Five-year F&D costs ($/boe) (2) | | |
| Proven | **8.11** | N/A |
| Established | **7.45** | N/A |

(1) Excludes prior year's reserve revisions, (2) Includes prior year's reserve revisions



C. Dean Setoguchi
*Vice President, Finance*

Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements and notes contained in this annual report. Certain statements throughout this report are forward-looking statements, which are based on information currently available. Actual results may vary from the estimates and the variations may be significant. Where amounts are expressed on a boe basis, gas volumes have been converted to bbls of oil at 6 mcf per bbl (6 mcf = 1 boe). This conversion ratio approximates the relative energy content between natural gas and oil.

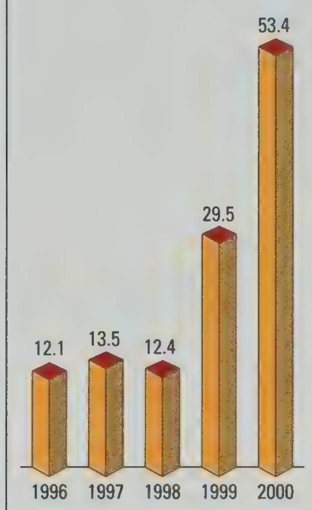
| INCOME SUMMARY | | | | | | |
|---|---|---|---|---|---|---|
| | **2000** | | | 1999 | | |
| | **(000s)** | **(per boe)** | **Revenue Margin (%)** | (000s) | (per boe) | Revenue Margin (%) |
| Petroleum and natural gas revenue | **53,403** | **31.45** | **100** | 29,461 | 18.64 | 100 |
| Royalties | **11,000** | **6.48** | **21** | 5,031 | 3.18 | 17 |
| Alberta Royalty Tax Credit | **518** | **0.31** | **1** | 728 | 0.46 | 2 |
| Operating costs | **8,974** | **5.29** | **17** | 7,169 | 4.54 | 24 |
| **Field netback** | **33,947** | **19.99** | **63** | 17,990 | 11.38 | 61 |
| General and administrative costs | **2,470** | **1.45** | **4** | 1,925 | 1.22 | 7 |
| Non-recurring takeover costs | **0** | **0** | **0** | 332 | 0.21 | 1 |
| Current taxes | **228** | **0.13** | **0** | 109 | 0.07 | 0 |
| Cash interest | **2,463** | **1.45** | **5** | 1.202 | 0.76 | 4 |
| **Cash flow from operations** | **28,786** | **16.96** | **54** | 14,421 | 9.12 | 49 |
| Depletion and depreciation | **12,976** | **7.64** | **24** | 5,916 | 3.74 | 20 |
| Site restoration | **415** | **0.24** | **1** | 237 | 0.15 | 1 |
| Future taxes | **6,297** | **3.71** | **12** | 3,233 | 2.05 | 11 |
| **Net income** | **9,096** | **5.37** | **17** | 5,035 | 3.18 | 17 |

## RESULTS OF OPERATIONS

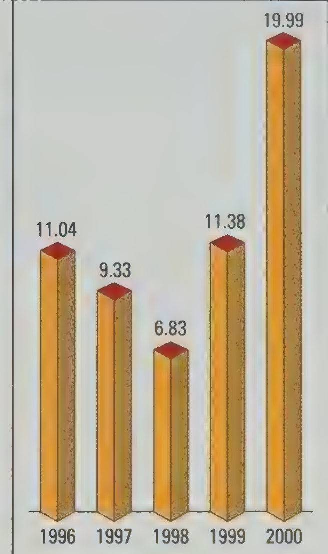
### Revenues

Petroleum and natural gas revenues increased by 81% to $53.4 million in 2000 compared to $29.5 million in 1999. Average production increased by 7% over the prior year to average 4,641 boe/d. All of the net production additions were attributable to natural gas, which averaged 21.3 mmcf/d compared to 18.4 mmcf/d in 1999. Oil and natural gas liquids production decreased marginally to 1,085 bopd from 1,256 bopd a year ago. Revenue growth was also driven by significantly higher commodity prices in 2000. Natural gas prices increased by 73% to average $5.09 per mcf, compared to $2.95 per mcf in 1999. World oil prices continued to recover during 2000, resulting in a 61% increase in average oil and natural gas liquids prices to $36.20 per bbl from $22.54 per bbl for the comparative period.

Hedging costs of $0.7 million have been netted against revenues in the current year. In 1999, a gain of $0.1 million was recorded. All financial hedges and physical commitments outstanding at December 31, 2000 are disclosed in the Notes to the Consolidated Financial Statements.




**REVENUE - OIL & NATURAL GAS**
*($ million)*




**FIELD NETBACK**
*($/boe)*

**GROSS REVENUE ($ THOUSANDS)**

| | **2000 Gross Revenue** | **%** | 1999 Gross Revenue | % | 1998 Gross Revenue | % |
|---|---|---|---|---|---|---|
| Natural gas sales | **39,713** | **74** | 19,064 | 65 | 7,273 | 59 |
| NGLs sales | **5,051** | **9** | 3,217 | 11 | 1,657 | 13 |
| Oil sales | **9,319** | **8** | 7,118 | 24 | 3,490 | 28 |
| Hedging (cost)/gain | **(680)** | **(1)** | 62 | 0 | 24 | 0 |
| **Petroleum and natural gas revenue** | **53,403** | **100** | 29,461 | 100 | 12,444 | 100 |

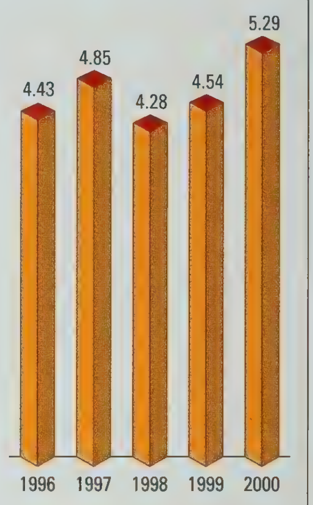
**AVERAGE PRICES**

| | **2000** | 1999 | 1998 |
|---|---|---|---|
| Oil and NGLs ($/bbl) | **36.20** | 22.54 | 13.82 |
| Natural gas ($/mcf) | **5.09** | 2.95 | 2.27 |
| Equivalent barrels ($/boe) | | | |
| 6:1 | **31.45** | 18.64 | 12.85 |
| 10:1 | **45.34** | 26.04 | 17.05 |
| Average benchmark prices: | | | |
| Oil WTI Cushing ($US/bbl) | **30.30** | 19.25 | 14.40 |
| Edmonton Par ($Cdn/bbl) | **44.03** | 27.54 | 20.35 |
| Gas AECO Spot Price ($/GJ) | **5.12** | 2.79 | 1.96 |
| US/Canadian dollar exchange rate | **0.673** | 0.673 | 0.687 |

## Royalties

Royalties (net of ARTC) increased to $10.5 million ($6.17 per boe) representing a 144% increase over the previous year's net royalties of $4.3 million ($2.72 per boe). As a percentage of gross revenues, royalties increased by 4% to 21%. The Alberta Royalty Tax Credit (ARTC) decreased by half, to 1% of gross revenues. The increase in gross royalties is a function of higher prices, particularly for natural gas and higher royalty rates on natural gas due to the sliding scale effect on Crown royalties.

The average ARTC rate for 2000 decreased to 25.91% from 68.85% in 1999, more than offsetting the increase in the royalties eligible for the Credit. The Company reached the maximum ARTC claim in 2000. In 2001, the Company's royalty rate is expected to increase slightly in accordance with higher prices throughout the year, and the continuing dilution of the ARTC impact.




**OPERATING COSTS**
*($/boe)*

## Operating Costs

Operating costs increased by 16.5% to $5.29 per boe compared to $4.54 per boe in 1999. On a gross basis, 2000 operating costs were $9 million compared to $7.2 million. Per unit operating expenses were affected by a number of factors, including higher costs for the new production acquired in the Pouce Coupe area where slightly sour gas is processed through third-party facilities. Other contributing factors included retroactive adjustments to transportation fees on Westcoast Energy's system in northeast British Columbia and installation of rental compression at the Company's Red Creek and Willesden Green properties.

## General and Administrative Costs

General and administrative costs (G&A) increased to $1.45 per boe, an 18.8% increase over the $1.22 per boe reported in 1999. Total G&A expenses were $2.5 million, versus $1.9 million in 1999. Most of the increase is attributable to office relocation costs; severance costs and search fees related to changes in management; and an expanded professional team that will help the Company attain its next level of growth. Although Courage anticipates slight increases to G&A costs for 2001, these are expected to decrease on a per unit basis due to a disproportionately higher increase in budgeted production additions.

**GENERAL AND ADMINISTRATIVE EXPENSES ($ THOUSANDS)**

| | **2000** | 1999 | 1998 |
|---|---|---|---|
| Gross expenses | **2,959** | 2,257 | 1,703 |
| Operator recoveries | **489** | 332 | 311 |
| **Net general and administrative expenses** | **2,470** | 1,925 | 1,392 |
| Average cost per boe 6:1 | | | |
| Gross expenses | **1.74** | 1.43 | 1.77 |
| Operator recoveries | **0.29** | 0.21 | 0.33 |
| **Net general and administrative expenses** | **1.45** | 1.22 | 1.44 |
| Employees as at December 31 | **23** | 20 | 14 |

## Depletion, Depreciation and Site Restoration

During 2000, depletion, depreciation and site restoration rose to $13.4 million from $6.2 million in 1999. On a per boe basis, the depletion charge increased to $7.89 per boe versus $3.89 per boe in 1999. The increase resulted from a one-time charge of $2.4 million ($1.41 per boe), relating to exploration costs incurred in France. Furthermore, an increased asset base and production volumes, higher finding costs and revisions to prior year's reserves also contributed to higher depletion costs.

| DEPLETION, DEPRECIATION AND SITE RESTORATION ($ THOUSANDS) | | | |
|---|---|---|---|
| | **2000** | 1999 | 1998 |
| Depletion and depreciation | **10,585** | 5,916 | 3,697 |
| Discontinued operations – France | **2,391** | - | - |
| Site restoration provision | **415** | 237 | 135 |
| **Total depletion, depreciation and site restoration** | **13,391** | 6,153 | 3,832 |
| **Depletion rate per boe** | **7.89** | 3.89 | 3.96 |

## Interest Expense

Courage incurred $2.5 million in interest on long-term debt during 2000, more than double the $1.2 million recorded in 1999. The increase reflects higher average debt levels associated with the acquisition of Pouce Coupe in February 2000 and an active capital program throughout the year. The bank facilities are utilized primarily through bankers acceptances and therefore are subject to floating interest rates.

## Income Taxes

The provision for income and other taxes increased to $6.5 million in 2000 from the previous year's provision of $3.3 million. As a result, Courage recorded a future tax provision in 2000 of $6.3 million and capital taxes of $0.2 million. The dramatic increase in the future tax provision in 2000 is a direct consequence of the Company's increased profitability due to higher commodity pricing and higher production levels. The increased capital tax is entirely due to higher Large Corporations Tax resulting from the increased capital structure of the Company.



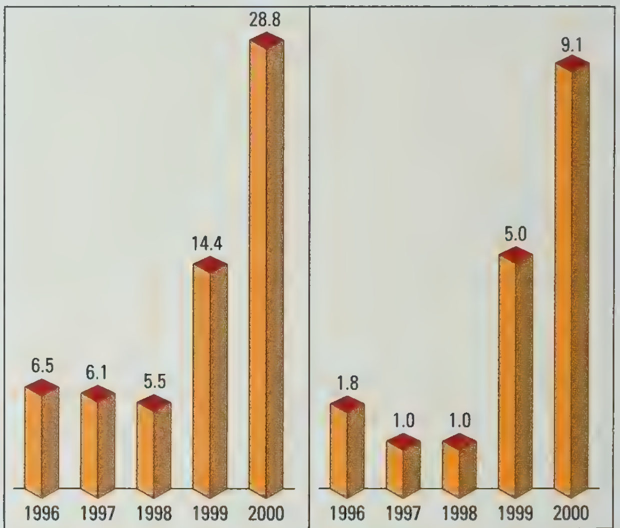
In 2000, Courage adopted the new guidelines of the Canadian Institute of Chartered Accountants for accounting for income taxes. This change resulted in a charge to retained earnings of $1 million and a $2.4 million increase to property, plant, and equipment for the effect of flow-through shares issued in prior periods. The adjustments were offset by an increase of $3.4 million to future income tax liabilities.

Courage has Canadian tax pools available to shelter future taxable income of approximately $51.4 million and an additional $11 million of United Kingdom pools. The Company expects to pay current taxes in addition to Large Corporations Tax for the 2001 fiscal year based on forecasted production, capital expenditures and taxable income.

| TAX POOLS | $ Millions | Rate of Claim (%) |
|---|---|---|
| Canadian Exploration Expenses | 1.0 | 100 |
| Canadian Development Expenses | 12.4 | 30 |
| Canadian Oil and Gas Property Expenses | 20.2 | 10 |
| Undepreciated capital costs | 15.2 | 20-100 |
| Foreign Exploration and Development Expenses | 2.3 | 10 |
| Other | 0.3 | 7-20 |
| **Total Canadian pools** | **51.4** | |
| United Kingdom tax pools | 11.0 | 25-100 |
| **Total combined** | **62.4** | |

### Cash Flow and Net Income

Courage enjoyed substantially higher cash flow in 2000 due to the Company's increased gas production and higher prices from both natural gas and natural gas liquids. Cash flow doubled to $28.8 million from $14.4 million in 1999. On a per share basis, 2000 cash flow increased to $1.14 per share ($1.07 per share fully diluted) compared to $0.57 per share ($0.54 per share fully diluted) in 1999. On a unit-of-production basis, cash flow improved to $16.96 per boe compared to $9.12 per boe in 1999, due mainly to rising product prices. Courage has been profitable every year since it was established. The Company continued this trend in 2000 by posting net income of $9.1 million, an 81% increase over 1999's $5.0 million. On a per share basis, net income increased to $0.36 per share ($0.35 per share fully diluted) versus $0.20 per share ($0.20 per share fully diluted) in 1999.




CASH FLOW
*($ million)*

EARNINGS
*($ million)*

## LIQUIDITY AND CAPITAL RESOURCES

Courage financed net capital expenditures of $46.5 million through a combination of cash flow and increased credit facilities. Long-term debt at December 31, 2000 increased by $16.7 million to $37.9 million from the prior year's $21.3 million. The Company currently has a $40 million credit facility with no repayment terms for 2001. Courage also had a working capital deficiency of $5.3 million at year-end 2000 compared to a $3 million deficit at the end of 1999.

The Board of Directors of Courage has approved a base case 2001 capital budget of $32 million to $35 million, which will be adjusted to reflect changes in economic circumstances. The Company also plans to reduce debt using proceeds from the disposition of minor properties and excess cash flows from higher than forecast production.

## SHARES

The common shares of Courage Energy Inc. trade on The Toronto Stock Exchange under the symbol "CEO". The total number of shares outstanding at December 31, 2000 was 24,983,342 representing a 1.5% decrease from the 25,357,467 shares outstanding at the previous year-end. During the year, 78,375 shares were issued through the exercise of stock options for total proceeds of $134,919. The Company also repurchased 452,500 common shares during 2000 pursuant to its normal course issuer bid at an average cost of $2.82 per share.

| COMMON SHARE TRADING (TSE - CEO) | | | |
|---|---|---|---|
| Year ended December 31 | **2000** | 1999 | 1998 |
| Trading volume (000s) | **5,994** | 6,477 | 6,778 |
| % of average number of shares outstanding | **24%** | 26% | 27% |
| Daily average | **23,786** | 25,700 | 26,897 |
| Trading value ($ millions) | **17.3** | 15.1 | 15.4 |
| Share price ($/share) | | | |
| High | **3.30** | 3.49 | 2.89 |
| Low | **2.50** | 1.40 | 1.55 |
| Weighted average | **2.89** | 2.33 | 2.28 |
| Market capitalization | | | |
| Shares outstanding (000s) | **24,983** | 25,357 | 24,948 |
| Year-end share price ($/share) | **2.95** | 2.70 | 1.65 |
| **Total ($ millions)** | **73.7** | 68.5 | 41.2 |

## BUSINESS RISKS

All companies in the Canadian oil and natural gas industry are exposed to a number of business risks, some of which are beyond their control. These risks can be categorized as operational, financial and regulatory.



Operational risks include finding oil and natural gas reserves on an economic basis; production risk once reserves are found and placed onstream; commodity marketing risk and the risk that employees and contract services can be hired and retained on a cost-effective basis. These risks can be mitigated by employing a team of highly qualified staff, providing a compensation system that rewards above-average performance and developing strong long-term relationships with contract service providers. The Company maintains an insurance program consistent with industry practice to protect against destruction of assets, well blowouts, pollution and other business interruptions. Courage maintains a geologically diverse, but geographically concentrated prospect inventory; a high well count to offset the risk associated with individual wells, and the use of proven technology where appropriate to minimize the cost of finding and developing oil and natural gas reserves.

Financial risks include interest rates, the U.S. dollar exchange rate, commodity prices and access to debt or equity markets. Courage cannot control these factors; however, it has on occasion hedged against fluctuations in commodity prices to attempt to control the impact of their volatility on the Company's operations. Courage has grown during the past four years primarily through an internally financed program, limiting the Company's dependence on external capital markets. Courage maintains a conservative approach to its finances and combined with a flexible capital expenditure program, can react appropriately should liquidity sources such as cash flow, debt or equity tighten unexpectedly.

Courage is also subject to regulatory risks, which are common to the industry. The Company takes a proactive approach with respect to the environment and safety as described below. An operational emergency response plan is in place and the Company is in compliance with current environmental legislation.

## SAFETY AND ENVIRONMENTAL

Courage recognizes that worker safety and protection of the environment are important measures of its success in the upstream oil and gas business. The Company is committed to operating in a manner that ensures the safety and health of its employees, contractors and the public while minimizing adverse effects to the environment. It manages these aspects of its business under the auspices of a Corporate Safety and Environmental Committee that develops and maintains programs that address matters relating to emergency response, safety and the environment.

During the last three years, Courage has not experienced any major safety or environmental incidents at its operated properties. The Company maintains liability insurance coverage relating to its operational activities and recently joined the Environmental Health and Safety (EHS) Stewardship Program of the Canadian Association of Petroleum Producers. In addition, the Company has taken steps to mitigate greenhouse gas emissions and actively manages the abandonment liabilities associated with its operated properties.

## OUTLOOK

The financial and operating budget, completed in November for 2001, anticipates combined average production of 5,500 boe/d (3,750 boe/d @ 10:1), consisting of an average 26 mmcf/d of natural gas and 1,150 bpd of oil and natural gas liquids. Management believes that these production averages are achievable based on recent production information, which is above the estimates used in preparing the Outlook.

The production forecasts assume a capital budget of $32 million to $35 million. With success, the results of the capital program can have a material impact on the actual production rate realized in 2001.

**CASH FLOW SENSITIVITIES**

| Approximate impact in 2001 | **Cash Flow $000s** | **Cash Flow $/share** |
|---|---|---|
| Natural gas | | |
| Change of $0.10/mcf in average price | 293 | 0.012 |
| Change of 1 mmcf/d production | 730 | 0.029 |
| Oil and NGL | | |
| Change of $1.00/bbl US in average price | 252 | 0.010 |
| Change of 100 bpd production | 400 | 0.016 |

## MANAGEMENT'S REPORT

**TO THE SHAREHOLDERS OF COURAGE ENERGY INC.**

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management is responsible for the integrity and objectivity of the consolidated financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgements. Management has established systems of internal controls which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

PricewaterhouseCoopers LLP, independent auditors appointed by the Shareholders, has examined the consolidated financial statements. The Audit Committee, consisting of non-management directors, has reviewed the consolidated financial statements with management and external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the audit committee.

| | |
|---|---|
| C. Dean Setoguchi | Tom Hefter |
| Vice President, Finance | Controller |

## AUDITORS' REPORT

**TO THE SHAREHOLDERS OF COURAGE ENERGY INC.**

We have audited the consolidated balance sheets of Courage Energy Inc. as at December 31, 2000 and 1999 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
March 9, 2001

# CONSOLIDATED BALANCE SHEETS

| As at December 31, | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | **381,312** | 252,416 |
| Accounts receivable and prepaids | **10,481,998** | 4,438,975 |
| | **10,863,310** | 4,691,391 |
| **Property, plant and equipment** (note 3) | **97,662,528** | 61,740,797 |
| | **108,525,838** | 66,432,188 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **16,203,636** | 7,703,113 |
| **Long-term debt** (note 4) | **37,930,000** | 21,250,000 |
| **Future income taxes (note 6)** | **14,991,694** | 5,320,493 |
| **Site restoration provision** | **1,185,458** | 782,714 |
| | **70,310,788** | 35,056,320 |
| **SHAREHOLDERS' EQUITY** | | |
| **Capital stock** (note 5) | **22,903,196** | 23,182,730 |
| **Retained earnings** | **15,311,854** | 8,193,138 |
| | **38,215,050** | 31,375,868 |
| | **108,525,838** | 66,432,188 |

See the accompanying notes to these consolidated financial statements.

**Approved by the Board of Directors**

Kenneth R. Stiles
Director

George Y. Tooley
Director

| For the years ended December 31, | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **REVENUES** | | |
| Oil and gas | **53,402,993** | 29,461,305 |
| Royalties | **(10,481,753)** | (4,302,202) |
| | **42,921,240** | 25,159,103 |
| **EXPENSES** | | |
| Operating | **8,974,024** | 7,169,288 |
| General and administrative | **2,469,614** | 1,925,068 |
| Non-recurring takeover costs | **–** | 332,404 |
| Interest on long-term debt | **2,463,518** | 1,202,007 |
| Depletion and depreciation | **10,585,467** | 5,915,700 |
| Discontinued operations-France (note 3) | **2,390,956** | – |
| Site restoration provision | **415,129** | 236,890 |
| | **27,298,708** | 16,781,357 |
| **Earnings before taxes** | **15,622,532** | 8,377,746 |
| **Income taxes** | | |
| Large corporation tax | **227,607** | 109,480 |
| Future income taxes (note 6) | **6,297,232** | 3,233,170 |
| | **6,524,839** | 3,342,650 |
| **Net earnings for the year** | **9,097,693** | 5,035,096 |
| **Retained earnings - Beginning of year** | **8,193,138** | 3,718,916 |
| Reduction of retained earnings due to: | | |
| Change in Accounting Policy - Future Income Taxes (note 6) | **(993,208)** | – |
| Acquisition of shares (note 5(c)) | **(985,769)** | (560,874) |
| **Retained earnings - End of year** | **15,311,854** | 8,193,138 |
| **Basic earnings per share** | **0.36** | 0.20 |
| **Fully diluted earnings per share** | **0.35** | 0.20 |

See the accompanying notes to these consolidated financial statements.

| For the years ended December 31, | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **OPERATING ACTIVITIES** | | |
| Net earnings for the year | **9,097,693** | 5,035,096 |
| Items not affecting cash | | |
| Depletion and depreciation | **10,585,467** | 5,915,700 |
| Discontinued operations - France (note 3) | **2,390,956** | – |
| Future income taxes | **6,297,232** | 3,233,170 |
| Site restoration provision | **415,129** | 236,890 |
| | **28,786,477** | 14,420,856 |
| Net changes in non-cash working capital balances related to operations | **639,732** | (885,879) |
| | **29,426,209** | 13,534,977 |
| **INVESTING ACTIVITIES** | | |
| Additions to property, plant and equipment | **(46,098,349)** | (20,758,967) |
| Purchase of AltaQuest Energy Corporation (UK) Limited | **(337,563)** | – |
| Disposals of property, plant and equipment | **5,100,000** | 202,500 |
| Site restoration costs | **(40,758)** | (315,548) |
| Net changes in non-cash working capital | **(3,335,340)** | 867,433 |
| | **(44,712,010)** | (20,004,582) |
| **FINANCING ACTIVITIES** | | |
| Issuance of long-term debt | **16,680,000** | 5,034,000 |
| Issue of common shares for cash, net of issue costs | **134,919** | 1,587,812 |
| Common shares repurchased | **(1,400,222)** | (862,910) |
| | **15,414,697** | 5,758,902 |
| **Increase (Decrease) in cash during the year** | **128,896** | (710,703) |
| **Cash - Beginning of year** | **252,416** | 963,119 |
| **Cash - End of year** | **381,312** | 252,416 |
| **Basic cash provided from operations per share** | **1.14** | 0.57 |
| **Fully diluted cash provided from operations per share** | **1.07** | 0.54 |
| **Cash flow supplemental information - cash paid** | | |
| Tax paid | **170,321** | 175,365 |
| Interest paid | **2,474,555** | 1,236,647 |

See the accompanying notes to these consolidated financial statements.

The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas resources in Western Canada, the United Kingdom ("U.K.") and France.

## 1 SIGNIFICANT ACCOUNTING POLICIES

*Principals of consolidation*

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Courage Energy (U.K.) Limited and AltaQuest Energy Corporation (UK) Limited.

*Property, plant and equipment*

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas properties are capitalized in separate cost centres for Canada, the U.K. and France. Such costs include land acquisition costs, geological and geophysical expenses, lease rentals on non-producing properties and costs of drilling both productive and non-productive wells.

Property costs, inclusive of costs associated with future development, are depleted on the unit of production method based on the estimated proven reserves before royalties as determined by independent reservoir engineers. Natural gas reserves are converted into equivalent barrels of oil based upon relative energy content. The net book value of capital costs is limited to estimated future net revenue from production of proved reserves using prices and operating costs in effect at year-end, plus the cost of unproved properties less management's estimate for impairment. This test also accounts for future general and administration expenses, future removal and site restoration costs, financing expenses and income taxes. Additional depletion is provided if the net book value of capitalized cost exceeds such future net revenue.

Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the costs of the property or the amount of the impairment is added to all other capitalized costs which are depleted.

Sales of oil and gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recognized, unless such adjustments would alter the rate of depletion and amortization by more than 20%.

The financial statements reflect only the Company's proportionate interest in its exploration and production activities where such activities are conducted jointly with others.

*Site restoration provision*

Estimated future site restoration costs are provided for over the life of the proved reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, costs, technology and industry standards. Actual site restoration expenditures are charged to the accumulated provision account as incurred.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on deposit.

### *Stock-based compensation plans*

The Company has a stock option plan, which is described in note 5(d). Compensation is not recognized for this plan when stock or stock options are issued to employees or directors. Any consideration paid by employees or directors on exercise of stock options is credited to capital stock.

### *Income taxes*

Effective January 1, 2000, the Company adopted the liability method for providing for income taxes. Under this method, future tax assets and liabilities are recognized based on differences between the bases of assets and liabilities used for financial statements and income tax purposes, using substantially enacted tax rates. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in the period that the change occurs.

### *Flow-through shares*

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The balance sheet has future income taxes increased and share capital decreased for the tax benefits lost as a result of passing the tax deductions to the shareholders.

### *Foreign currency translation*

The financial statements of the U.K.subsidiaries, accounted for as an integrated operation, have been translated into Canadian dollars using the temporal method as follows:

a) monetary items, at the exchange rate at the end of the year;

b) non-monetary items, at the approximate rate of exchange at the time the transaction occurred; and

c) revenues and expenses, at the average rate of exchange for the year, except for items relating to the balance sheet accounts which are translated at historical exchange rates.

Any resulting foreign exchange gains or losses have been reflected in the statement of income.

## ACQUISITION

In November 2000, the Company purchased all of the issued and outstanding shares of AltaQuest Energy Corporation (UK) Limited. AltaQuest Energy Corporation is involved in oil and gas exploration, development and production in the onshore United Kingdom. The results of operations have been included in the consolidated financial statements from November 1, 2000. The acquisition was accounted for using the purchase method as follows:

| | $ |
|---|---|
| **ASSETS** | |
| Current assets | 614,094 |
| Property and Equipment | 5,226,716 |
| | 5,840,810 |
| **LIABILITIES** | |
| Current Liabilities | 5,474,874 |
| Site Restoration | 28,373 |
| | 5,503,247 |
| | 337,563 |
| **CONSIDERATION** | |
| Cash | 293,925 |
| Acquisition costs | 43,638 |
| | 337,563 |

## 3 PROPERTY, PLANT AND EQUIPMENT

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| Petroleum and natural gas properties, at cost | | |
| Canada | **119,278,083** | 78,830,545 |
| United Kingdom | **13,265,329** | 6,333,205 |
| France | **2,390,956** | 368,598 |
| Office | **1,008,814** | 589,592 |
| | **135,943,182** | 86,121,940 |
| Accumulated depletion and depreciation | **(38,280,654)** | (24,381,143) |
| | **97,662,528** | 61,740,797 |

Unproved properties in the amount of $14,127,000 (1999 - $12,087,000) have been excluded from petroleum and natural gas properties for purposes of calculating depletion. During 2000, management determined, based on drilling results, not to continue operations in France at this time. Cost incurred to date of $2,390,956 have been fully provided for and included with accumulated depletion.

## 4 LONG-TERM DEBT

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| Revolving demand loan | **7,930,000** | 5,250,000 |
| Bankers' Acceptances | **30,000,000** | 16,000,000 |
| | **37,930,000** | 21,250,000 |

During the year, the Company increased its credit facility from $30,000,000 to $40,000,000. The credit facility can be drawn in the form of a revolving demand loan, tender loans, letters of credit to a maximum of $1,000,000 and Bankers' Acceptances. The components of the credit facility bear interest as follows:

a) the revolving demand loan bears interest at the prime lending rate (1999 - prime) per annum and is paid in arrears; and

b) the Bankers' Acceptances bear interest at the prime acceptance fee rate plus 1/4% (1999 - prime plus 1/4%) per annum and is paid in advance.

The credit facility is reviewed annually by the bank, and, subject to their satisfactory review, and provided certain covenants with respect to the Company's borrowing base are maintained, no principal repayments will be required in the next twelve months. Collateral for this credit facility is provided by a general security agreement over the Company's Canadian oil and gas properties.

Based upon the remaining credit facilities, the indebtedness outstanding at December 31, 2000 and the Company's cash flow, no current portion of the bank credit facility is required to be paid and therefore no current portion has been recognized.

## 5 CAPITAL STOCK

a) Authorized

The Company's authorized share capital is:

Unlimited number of common shares

Unlimited number of preferred shares which may be issued in one or more series. The directors are authorized to fix the number of shares in each series and determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

b) Issued

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount $** | Number of shares | Amount $ |
| Common shares | | | | |
| Balance - Beginning of year | **25,357,467** | **23,182,730** | 24,948,117 | 23,102,016 |
| Exercise of stock options | **78,375** | **134,919** | 739,250 | 1,597,613 |
| Tax benefits renounced | **–** | **–** | – | (1,209,436) |
| Share issuance costs, net of future income taxes (2000 - $ NIL; 1999 - $4,374) | **–** | **–** | – | (5,427) |
| Normal course issuer bid (note 5(c)) | **(452,500)** | **(414,453)** | (329,900) | (302,036) |
| Balance - End of year | **24,983,342** | **22,903,196** | 25,357,467 | 23,182,730 |

c) Pursuant to the Company's Normal Course Issuer Bid filed with the Toronto Stock Exchange, a total of 452,500 (1999 - 329,900) common shares were purchased and cancelled, at an average cost of $2.82 (1999 - $2.58) per share. The aggregate cost of common shares purchased and cancelled was recorded as a charge against share capital of $414,453 (1999 - $302,036) for the average carrying value of the common shares, with the balance of $860,769 (1999 - $560,874) charged against retained earnings. Included in the total balance charged against retained earnings was a further $125,000 (1999 - $ nil) related to stock options repurchased. At December 31, 2000, 1.0 million additional common shares are permitted to be purchased and cancelled prior to August 10, 2001.

d) The Company's Stock Option Plan provides for a maximum of 4,385,000 common shares to be issued to its employees, directors or consultants. As of December 31, 2000, 2,015,125 common shares have been issued since inception and 2,369,875 common shares are reserved for issuance pursuant to the Stock Option Plan. The exercise price of each option grant shall not be less than the market price of the shares on the last trading day preceding the date of the grant. The maximum term provided for stock options under the plan is 10 years. Stock options currently outstanding have a maximum term of 4 years and are fully vested after the third year.

e) A summary of the status of the Company's Stock Option Plan is presented below.

| | 2000 Shares | 2000 Weighted-average exercise price $ | 1999 Shares | 1999 Weighted-average exercise price $ |
|---|---|---|---|---|
| Outstanding - Beginning of year | **1,682,750** | **2.12** | 862,000 | 2.17 |
| Granted | **547,500** | **2.76** | 1,662,500 | 2.12 |
| Exercised | **(78,375)** | **1.72** | (739,250) | 2.16 |
| Expired/repurchased | **(246,875)** | **1.59** | (102,500) | 2.25 |
| Outstanding - End of year | **1,905,000** | **2.39** | 1,682,750 | 2.12 |
| Options exercisable at year end | **741,750** | | 511,250 | |

The following table summarizes information about the stock options outstanding at December 31, 2000.

| **Options outstanding** | | | | **Options exercisable** | | |
|---|---|---|---|---|---|---|
| **Range of exercise prices $** | **Weighted-average exercise price $** | **Number outstanding at 31-Dec-00** | **Weighted-remaining contractual life** | **Range of exercise prices $** | **Weighted-average exercise price $** | **Number outstanding at 31-Dec-00** |
| **1.55 - 2.90** | **2.39** | **1,905,000** | **2.16 years** | **1.55-2.70** | **2.15** | **741,750** |

f) Basic per share information is calculated on the basis of the weighted average of common shares outstanding during the year of 25,168,563 (1999 - 25,187,323).

g) Fully diluted per share information was calculated using 27,073,563 (1999 - 26,870,073) which represents the sum of the weighted average of common shares outstanding and stock options outstanding at year end.

## 6 FUTURE INCOME TAXES

Effective January 1, 2000, the Company changed the method of accounting for income taxes from the deferral method to the liability method. The new method was applied retroactively without restatement of prior periods. The effect of the change in accounting policy on the financial statements was to decrease retained earnings by $993,208. In addition, there was an increase of $ 2,381,000 to property, plant and equipment for the effect of flow through shares issued in prior periods. This resulted in a cumulative adjustment of $ 3,374,000 to the future income tax liability.

The provision for future income taxes reflect an effective tax rate which differs from combined federal and provincial statutory tax rates. The main differences are summarized as follows:

| | **2000**<br>**$** | 1999<br>$ |
|---|---|---|
| Earnings before income taxes | **15,622,532** | 8,377,746 |
| Statutory income tax rate | **44.62%** | 44.62% |
| Expected tax expense | **6,970,774** | 3,738,150 |
| Increase (decrease) in taxes resulting from: | | |
| Crown royalties | **3,596,870** | 1,484,105 |
| Resource allowance | **(4,176,724)** | (1,827,991) |
| Alberta royalty tax credits | **(231,221)** | (324,158) |
| Other | **137,533** | 163,064 |
| Future income tax provision | **6,297,232** | 3,233,170 |

The Company has non-capital losses, resource pools and tax deductions carry forward of approximately $51,372,000 (1999 - $37,887,000) in Canada and $11,000,000 (1999 - $4,900,000) in the U.K. available for use against future taxable income.

The components of the net future income tax liability at December 31, 2000 are as follows:

| | **2000**<br>**$** |
|---|---|
| **FUTURE INCOME TAX ASSETS** | |
| Non-capital loss carry-forwards | **803,376** |
| Share issue costs | **82,437** |
| Other | **55,283** |
| | **941,096** |
| **FUTURE INCOME TAX LIABILITIES** | |
| Tax effected carrying value of capital assets in excess of tax liabilities | **15,932,790** |
| Net future income tax liability | **14,991,69** |

## 7 COMMITMENTS

Pursuant to gas sales contracts, the Company is committed at December 31, 2000:

a) to supply 2,500 gigajoules (G.J.) (2,370 mcf) of natural gas per day until October 31, 2005. The Company receives a blended price based on the average of five United States markets less a buyers fee of $0.025 per G.J. and NOVA transportation charges.

b) to supply 3,000 G.J. (2,845 mcf) of natural gas per day until April 1, 2001. The Company receives a price of Cdn. $10.15/G.J. (Cdn. $10.70/mcf) less NOVA transportation costs.

c) to supply 1,575 G.J. (1,500 mcf) of natural gas per day until October 31, 2001. The Company receives market based pricing less gathering and processing costs.

The Company's annual rents in respect to leases and operating costs in the next three years are as follows:

| | **$** |
|---|---|
| 2001 | 314,675 |
| 2002 | 314,675 |
| 2003 | 236,007 |

## 8 SEGMENTED INFORMATION

| | **Canada** | **United Kingdom** | **France** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| December 31, 2000 | | | | |
| **Revenue** | **51,678,593** | **1,724,400** | **–** | **53,402,993** |
| **Earnings** | **11,868,777** | **(380,128)** | **(2,390,956)** | **9,097,693** |
| **Identifiable assets** | **96,878,926** | **11,646,912** | **–** | **108,525,838** |
| December 31, 1999 | | | | |
| Revenue | 28,144,281 | 1,317,024 | – | 29,461,305 |
| Earnings | 4,898,871 | 136,225 | – | 5,035,096 |
| Identifiable assets | 60,090,415 | 5,973,175 | 368,598 | 66,432,188 |

## 9 FINANCIAL INSTRUMENTS

a) The Company had $1,154,760 of unrealized losses on natural gas hedges at December 31, 2000.

| Daily quantity | Amount | Transaction type | Period covered |
|---|---|---|---|
| Natural Gas | | | |
| 2000 GJ/d | 7.63/GJ | Financial Swap | Jan - Mar/01 |
| 2000 GJ/d | 6.14/GJ | Financial Swap | Apr - Oct/01 |
| 5000 GJ/d | 6.10/GJ | Put | Jan - Mar/01 |
| 5000 GJ/d | 5.00/GJ | Costless Collar - Floor | Apr - Oct/01 |
| | 7.85/GJ | Costless Collar - Ceiling | Apr - Oct/01 |

There were no significant gains or losses on financial swaps, futures or put options at December 31, 1999.

b) Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet, including long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments and the floating prime rate applied to the long-term borrowings.

c) Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry, and are subject to normal industry credit risks. All swap agreements are with major financial institutions in Canada.

d) Interest rate risk

At December 31, 2000, the increase or decrease in net earnings for each 1% change in interest rates on floating rate debt amounts to $212,400.

## 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year presentation.

| | **2000** | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| **FINANCIAL** | | | | | | |
| ($000s except share and per share amounts) | | | | | | |
| Gross oil and natural gas revenue | **53,403** | 29,461 | 12,444 | 13,483 | 12,074 | 7,226 |
| Cash flow from operations | **28,786** | 14,421 | 5,523 | 6,106 | 6,504 | 2,685 |
| Per share - basic | **1.14** | 0.57 | 0.24 | 0.27 | 0.32 | 0.16 |
| Per share - fully diluted | **1.07** | 0.54 | 0.24 | 0.27 | 0.32 | 0.16 |
| Earnings | **9,098** | 5,035 | 1,011 | 970 | 1,819 | 136 |
| Per share - basic | **0.36** | 0.20 | 0.04 | 0.04 | 0.09 | 0.01 |
| Per share - fully diluted | **0.35** | 0.20 | 0.04 | 0.04 | 0.09 | 0.01 |
| Capital expenditures | **46,530** | 20,556 | 16,147 | 14,603 | 10,882 | 5,098 |
| Total assets | **108,526** | 66,432 | 52,379 | 41,155 | 30,047 | 22,080 |
| Working capital deficiency | **5,341** | 3,012 | 2,319 | 1,377 | 2,297 | 367 |
| Long-term debt | **37,930** | 21,250 | 16,216 | 8,005 | 2,085 | 6,248 |
| Shareholders' equity | **38,215** | 31,376 | 26,821 | 23,963 | 20,694 | 12,281 |
| Common shares | | | | | | |
| Outstanding at December 31 | **24,983** | 25,357 | 24,948 | 23,405 | 22,026 | 17,860 |
| Weighted average for year | **25,169** | 25,187 | 23,495 | 22,227 | 20,314 | 16,738 |
| **OPERATIONS** | | | | | | |
| Average daily production | | | | | | |
| Gas (mcf/d) | **21,333** | 18,440 | 9,800 | 6,320 | 5,050 | 5,060 |
| Oil (bpd) | **718** | 832 | 710 | 964 | 887 | 534 |
| NGLs (bpd) | **367** | 424 | 310 | 224 | 148 | 86 |
| Total (boe/d - 6:1) | **4,641** | 4,329 | 2,653 | 2,241 | 1,877 | 1,463 |
| **RESERVES (6:1 conversion ratio)** | | | | | | |
| Proven (mboe) | **11,536** | 12,193 | 11,445 | 7,440 | 4,042 | 3,336 |
| Probable (mboe) | **3,362** | 2,993 | 3,293 | 3,382 | 1,827 | 1,520 |
| **Total (mboe)** | **14,898** | 15,186 | 14,738 | 10,822 | 5,869 | 4,856 |

# CORPORATE INFORMATION

## HEAD OFFICE
Suite 2500, 400 - 3rd Avenue S.W.
Calgary, Alberta T2P 4H2

| | |
|---|---|
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| Fax: | (403) 264-1028 |
| Internet: | http://www.courage-energy.com |
| E-mail: | info@courage-energy.com |

## SUBSIDIARY COMPANIES
Courage Energy (U.K.) Limited
AltaQuest Energy Corporation (U.K.) Limited

## BOARD OF DIRECTORS
Kenneth R. Stiles, Calgary (1), (3), (4)
Robert G. Moffat, Calgary
Frank D. Barker, Vancouver (3)
Ronald E. Newman, Calgary (2), (4)
Jack W. Peltier, Calgary
G. Brent Rusk, Calgary (2), (4)
George Y. Tooley, Montreal (2), (3)

(1) Chairman of the Board
(2) Member of Audit Committee
(3) Member of Compensation Committee
(4) Member of Reserves Committee

## OFFICERS
Robert G. Moffat, President & CEO
John W. Essex, Vice President, Operations
Janine R. Rossos, Vice President, Exploration
C. Dean Setoguchi, Vice President, Finance
P. David Shenstone, Vice President, Land
Tom H. Hefter, Controller
Kevin E. Johnson, Corporate Secretary

## AUDITORS
PricewaterhouseCoopers LLP.
1200, 425 - 1 Street S.W.
Calgary, Alberta

## BANKERS
Royal Bank of Canada
335 - 8th Avenue S.W.
Calgary, Alberta

## CONSULTING ENGINEERS
McDaniel & Associates Consultants Ltd.
2200, 255 - 5th Avenue S.W.
Calgary, Alberta

## LEGAL COUNSEL
Macleod Dixon LLP.
3700, 400 - 3rd Avenue S.W.
Calgary, Alberta

## STOCK EXCHANGE
The Toronto Stock Exchange
Trading Symbol: CEO

## TRANSFER AGENT AND REGISTRAR
Computershare Trust Company of Canada
Calgary, Alberta

## ABBREVIATIONS

| | |
|---|---|
| APO | after payout |
| A.R.T.C. | Alberta Royalty Tax Credit |
| bbls | barrels |
| bcf | billion cubic feet |
| boe | barrels of oil equivalent (6 mcf = 1 boe) |
| boe/d | barrels of oil equivalent per day |
| bopd | barrels of oil per day |
| bpd | barrels per day |
| BPO | before payout |
| mmbbls | millions of barrels |
| mboe | thousand barrels of oil equivalent |
| mmboe | million barrels of oil equivalent |
| mcf | thousands of cubic feet |
| mcf/d | thousands of cubic feet per day |
| mmcf | millions of cubic feet |
| mmcf/d | millions of cubic feet per day |
| NGLs | natural gas liquids |
| NPV | net present value |
| tcf | trillion cubic feet |
| WTI | West Texas Intermediate |

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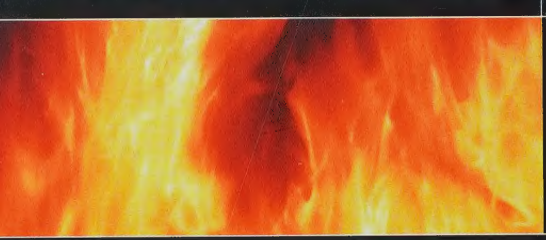

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